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The Coming Generational Storm

John Mauldin

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The Echo Bubble

Today, we are going to look at a very important study by the always insightful James Montier on the Echo Bubble? Can we look at past bubbles and see a pattern? But first, we are going to look at a (frankly disturbing) new book, which I am going to encourage you to get and read.

"In 2030, as 77 million baby boomers hobble into old age, walkers will outnumber strollers; there will be twice as many retirees as there are today but only 18 percent more workers. How will America handle this demographic overload? How will Social Security and Medicare function with fewer working taxpayers to support these programs?"

While some boomers are hopeful we will not hobble into old age, these are the very reasonable questions asked by Larry Kotlikoff and Scott Burns in their guaranteed to be controversial new book, hot off the press, called ***"The Coming Generational Storm."***

I have often written about the coming demographic problems facing our nation. This is a topic I have researched at length, and have a few chapters on the subject in my book. Yet reading this book, I was constantly confronted with new facts and analysis. Some of the facts amazed me. Some of it was disturbing. Kotlikoff and Burns not only offer solutions to the coming problems, but personal financial advice to deal with the implications of their conclusions.

Before my European readers skip to the next section, let me say that the problems I discuss now, while they may be those of the US, are the very ones also facing you. In fact, with the exception of Britain, your demographically caused pension problems are far worse than that of the US. For instance, Germany "is still looking at a 60 percent long-run payroll tax rate to fund the combination of old age pensions, health care, long-term care, accident insurance and disability" promised by the current government rules. This is before any other government spending. No matter what reforms are enacted, there are going to be some unhappy campers in Germany in the coming decades. Either benefits will be cut, or taxes doubled. Many of the solutions Kotlikoff and Burns suggest will work for you, although few politicians are going to like them.

We are going to look at some aspects of this book at length, but before we do, let me strongly

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Debt vs. Income: At the Point of No Return

Richard Benson

At the beginning of 2003, the level of debt that American's owed as an absolute amount, and as a ratio of income, was already approaching levels never seen before. Debt can be handled in a number of ways: 1) earn enough money to pay it off; 2) default; 3) borrow even more; or, 4) pray for inflation so you can earn more dollars (but really pay back less). Where are we now?

Last year, personal income increased about 2%. Individual debt increased about 10%. Personal debt for autos, credit cards, etc., topped $2 Trillion - up about $120 Billion despite massive debt consolidation and mortgage refinancing. Mortgage debt rose about $800 Billion, and total individual debt rose over $925 Billion, while wages and salaries rose only $190 Billion. Retirees and savers saw their interest income shrink, as interest paid on savings dropped by $30 Billion. Indeed, given the Fed's low interest rate policies, it doesn't pay to save.

In December, the savings rate dropped to a new low of 1.5% and in the 3rd quarter of 2003, the only reason financial assets were acquired is because they were

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bought with borrowed money. The low savings rate is even more astounding when you consider the increase in Disposable Personal Income of around $200 Billion from the tax cut. The economy needs $500 Billion in government stimulus from tax cuts and increased spending just to keep employment from falling and to help consumers roll over their credit cards for another month.

The savings rate is actually materially overstated. Personal Income, according to the Bureau of Economic Analysis, includes a few hundred billion dollars in "imputed income" for owning your own home and receiving value for other "non-cash services". Imputed income is significantly greater than the 1.5% savings rate! Unfortunately, debt can only be repaid with actual cash flow. In January, Personal Income rose at about a 2% annual rate and very few jobs were created. Consumers are spending every last penny to live, and many are "tapped out".

What is perfectly clear from simple arithmetic is that without a sudden increase in the number of jobs and the wages they pay, individual debt cannot be serviced by personal income. Worse yet, not only are people not saving, but their financial reserves are not in real cash. The only thing keeping the "national ponzi scheme" going is the illusion of wealth created by the Federal Reserve's low interest rates and liquidity that has allowed stock market valuations and housing

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suggest that this is a book you should buy. In fact, some of you should buy two. Those who have a relationship with their Congressman or Senator should put the second copy in their hand. If you have adult children, you should buy them a copy as well.

(For the record, Laurence J. Kotlikoff is Professor of Economics at Boston University and a Research Associate of the National Bureau of Economic Research. Scott Burns, and an acquaintance of long standing (given the nature of this book, I am now sensitive to the word old), is a nationally syndicated financial columnist with the Dallas Morning News.)

Let's briefly review the problem. If one calculates the cost of all the future promises of Social Security and Medicare/Medicaid, the number runs to somewhere around $45 trillion. Without any reform that number grows to $54 billion by 2008. Future generations of tax-payers (read the young) are going to be left with this debt.

Of course, they are things we could do to solve the problem. In order to achieve current solvency, the government could simply raise payroll taxes by 69%, beginning today. Alternatively the government could cut Social Security and non-Medicare outlays by 45% immediately and forever. (How do you think either policy would go over at the polls? Not to mention how quickly could you spell recession?)

Of course, when that study was done, the recently passed Medicare Drug Benefit program had not been passed. That merely raises the future deficits by $6 trillion to $51 trillion.

At some point in the future, either social safety net benefits are going to have to be cut or taxes raised, or both. And the changes will be significant. Rob Arnott (correctly, I think) points out in studies that I have written about elsewhere that long before we get to the crisis predicted by these numbers, the market will have forced a solution. The trends are unsustainable. The system is going to have to be restructured. The question is when and how, and at what price?

Try telling some future retiree who has been paying into Social Security for 40 years that his benefits are going to get cut. Social Security is one of the lousiest "investments" of all time, because it is not an investment. Apart from pandering politicians, everyone knows there is no Social Security Trust Fund Lock-box. The program is just a huge transfer of tax money from workers to retirees with very serious government management costs draining resources.

Of course, as Kotlikoff and Burns point out, to not change the benefit structure means an eventual almost doubling of the payroll tax. Try telling future young workers they should pay 30% on payroll tax, plus a huge hike in income taxes to pay for Medicare and Medicaid.

There are no easy solutions or pain free way out. Part of the problem keeping us from reform is that the distance between the two political parties is so vast, and neither party wants to talk about the very real economic pain a true solution would create. Privatizing Social Security might sound nice to Republicans, but is anathema to Democrats. And frankly, allowing Mom and Pop investor to "time" the market in their accounts means some are going to not end up with a reasonable retirement. Control has its benefits and its very real costs. Are we going to have the government come in and pick up the costs for those who invested unwisely?

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Letting people opt out of Social Security and going private (I would do so in a nano-second) means that someone through some other tax would have to finance the pay as you go system we now have. Even if we were to gradually do it, it would mean gradual tax increases or more government debt.

But taking the Al Gore approach (do nothing) means that future generations are going to have to cough up a lot of money. We merely postpone the crisis and payments to our kids, or they vote to stiff us.

I can give you the logic of privatizing Social Security. But it is not politically possible, and perhaps not even wise. So what might be? Kotlikoff and Burns offer the following novel suggestions.

Personal Security Accounts

- Basically, stop accruing any more social security benefits to anyone. Simply stop the current system.
- Any benefits already accumulated will be paid, but eliminate the Social Security tax. Anyone promised any benefit will get everything they have been promised, and in full.
- Social Security's Old Age Insurance payroll tax is eliminated and replaced with equivalent compulsory contributions to something they call a Personal Security System (PSS) account. The account is invested in a weighted world index of stocks, bonds and real estate from every major stock market.
- A new federal retails sales tax is used to pay off the accrued retirement benefits owed under the old system.
- To eliminate the dramatic unfairness in the current system, worker contributions are shared 50-50 with their spouses.
- The government contributes to PSS accounts on behalf of disables and unemployed.
- The government matches PSS contributions on a progressive basis.
- All PSS accounts are invested in a single market-weighted global index fund of stocks, bonds and real estate.
- The government guarantees the real principle that workers contribute to their accounts.
- Between age 57 and 67, workers PSS accounts are gradually sold off and transformed into inflation-protected pensions.
- If a worker dies prior to age 67, any remaining PSS balances would be transferred to PSS accounts of the worker's heirs.

Young workers are guaranteed a far better retirement than current Social Security benefits. Depending upon contributions, it could be many times better. Everyone gets their benefits. The system they propose is clearly fairer. What's not to like?

The Devil is in the details. I preface the details with this note. For those who do not know of Scott Burns, he is no liberal. He helped found the National Taxpayers Union and is no proponent of big government or taxes.

The national sales tax they propose to deal with the accumulated benefits already due to future retirees would start at 12%. Over time (many decades) it would decrease to about 3%, as with each passing year, those who die would stop receiving benefits.

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prices to artificially inflate. The market value of homes in 2003 rose about $1 Trillion and stock market values rose about $1.5 Trillion. The rising asset prices look like they balance rising debt on household balance sheets. Tragically, the increase in asset prices will vanish the day that interest rates rise, but the debts will still remain. Indeed, not only will the debt remain, but the cost of servicing it will go up dramatically. As interest rates rise, wages and salaries must increase or massive debt defaults will follow.

Income and job growth are so low that we have certainly passed “The Point of No Return”. There cannot be an easy resolution to the debt bubble and resolution will only come when a crisis forces change. Perhaps, for this election year, crisis can be postponed by continuing to facilitate an increase in borrowing so that debts can be rolled over, but increased. By 2005, the ultimate outcome to resolve the debt problem looks like it will be a combination of inflation, rising interest rates and debt default.

The reason we do not believe that job and income growth will save the day for the American worker is we have never before seen in history such increases in government spending, tax cuts, federal budget deficits, consumer spending and borrowing, with so little job growth. The massive fiscal and monetary stimulus has mostly been spent. There will be some nice tax refunds this spring, and that’s it! The peak

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of mortgage refinancing is already past. Construction spending is at a peak and the percentage of people who own their homes is at a record 69%. Mortgage underwriting shows that 5% of homebuyers in 2003 really couldn't afford to buy a home, and another 5% could lose their home if one spouse becomes unemployed.

While the industrial sector is recovering, employment in the manufacturing sector has not increased since the start of the recession - there has been job loss in manufacturing for the past 42 months in a row. The United States has been in an economic recovery for over a year and a half and continues to lose manufacturing jobs every month! This is unprecedented!

Capacity utilization in the US remains about 76%, while massive new investments in production capacity are being made in Asia. The drop in the dollar has primarily affected trade with Europe, and Europe isn't stealing our jobs. As long as Asia buys our dollar debt and continues to hold their currencies down against the dollar, job growth will happen there, but not here. Even when China and the rest of Asia "finally float" their currencies, few jobs will come back to America. In the United States, we only produce 45% of the manufactured goods we consume and much of that production is in electricity, petroleum refining, chemicals etc., that are capital intensive, with few workers required. Critically, many of the workers listed as employed

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They then follow this up with reasons why the sales tax is not really all that regressive, is certainly better than the current situation and so on. They explain why they use a world investment index. All nice arguments and reasonably set forth.

Is this realistic? Do you really want to invest in a world index with all the currency problems and other issues? As bad as the US debt may look, do we want to invest in a Europe where it is at least twice as bad? Are there better ways to solve the problem? Maybe, but it misses the point. And here we go from their analysis to mine.

Without any fanfare, they give us the real cost, in a very understandable way, of the current Social Security dilemma. It is 12% of our national sales for a very long time and only slowly decreasing to 3% in 4-5 decades. Yes, it creates a forced saving pool and it makes retirement fairer and more certain. It puts the burden of paying for their retirement on the boomer generation. Again, the burden falls onto a generation who believe they have already paid for their benefits. Politicians have told them this lie for years.

An Immediate and Guaranteed Recession

But solving the crisis today using this model costs 12% of national sales. That means a 12% reduction in funds available for consumer spending. And in an economy that is two-thirds powered by consumer spending that means, at least to me, an immediate and guaranteed deep recession. When I asked Kotlikoff about this, he responded that economies with much larger savings ratios (as this plan would force upon the nation) do just fine. Further, he quite correctly pointed out, it is immoral to obligate future generations - our children - to pay for our debts.

Of course, putting off the solution simply guarantees the problem to be worse in the future, and more expensive and a bigger drag on the economy.

Scott was a little bit more up front. He agreed with me that it would likely create a recession. But it is the right thing to do. Further in our discussion we asked ourselves what politician is going to vote for a plan that forces current generations and voters to suffer when we can put off suffering until they are out of office? If Kerry is elected, there is a snowball's chance in hell that any agreement can be reached to restructure Social Security. If Bush is re-elected with a large majority, do you think they will willingly sacrifice today's economy? They can't even hold down spending.

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Home is where the national debt is

PAWTUCKET, R.I. - (KRT) - Drive down Sayles Avenue, and it's difficult to miss David Greenwood's house.

"It's the only house with a 15-digit number on it," says Greenwood, when giving directions.

That number is not his address. It's the amount of the U.S. national debt, which Greenwood has been posting on the front of his house, just below the roof, for the past five years. Greenwood, 36, and his father, William, 63, update the number weekly.

Late last month, the number stood at $7,101,572,481,194.83.

"It's a way to attract attention," William Greenwood said. "Hey, we have a monstrosity here."

William Greenwood said he wants people to pay attention to the growth of the national debt, which he fears could eventually render the government unable to pay for basic services.

When he started posting the debt in the spring of 1998, the number stood at about $5.47 trillion. It has increased steadily since then.

"It's shameful," said Greenwood, a semi-retired contractor, who used to deliver phone books, among other jobs. "It's not about me. I'm 63. I've got an 11-year-old granddaughter. What about her?"

Few people - at least those passing by on Sayles Avenue - seem to share the Greenwoods' outrage. Some motorists have inquired about the numbers. And high school students walking by have occasionally stopped and asked.

The Greenwoods have posted David's phone number on the house above the debt. But he has not received a call in five years.

"People are either not paying attention or not paying attention until tragedy strikes," he said

Greenwood believes that politicians, both Democrats and Republicans, are not willing to part with their "pet projects" and rein in government spending. He credited former president Bill Clinton with helping lower the debt during the 1990s.

But the number is climbing again, as the Bush administration and Congress run up a deficit to pay for the war in Iraq and bolster antiterrorism programs, while at the same time cutting taxes.

Debt is the total amount of money owed by the government; the deficit is how much government spending exceeds revenue every year.

Greenwood wonders about the possibilities of life without national debt. For instance, he thinks the government would be in a better position to provide affordable health care.

A few years ago, William Greenwood and his wife, Doris, instituted a period of financial austerity. They cut out trips to see baseball games; they stopped eating out at restaurants; they only shopped at sales. With time, they wiped out their credit-card debt.

With a lot of sacrifice, the country might be able to save itself, he said.

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But even if the entire plan, or some form of it, were adopted, that only solves about 20% of the long-term debt problem. The real and massive problem is Medicare and Medicaid. Without going into great detail, they propose a New Medical Security System (MSS). Basically, it is universal insurance vouchers that tailored to your individual health and circumstances. If you are sick or have cancer, your voucher might be as much as $100,000. If you are healthy, it might only be a few thousand. Their math shows this would save another $27 trillion. They would balance the rest of the future debt by a combination of tax increases and limits on federal spending.

Social Security and health care commitments are not problems that we can simply grow ourselves out of. Yes, the study which shows the $45 trillion debt assumes over time that we will be spending up to 30% of our GDP on health care, which I seriously doubt is possible. There are other flaws in the study. There are no assumptions that future entrepreneurs will find ways to meet future needs in a more cost-efficient manner, or that new technologies will change the cost equation of goods and services.

We could always quadruple immigration, but Kotlikoff and Burns show that only partially solves the problem. And can you think of a politician who would run on such a platform?

We can quibble with a lot of things,

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national debt

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"After Pearl Harbor this country came together, and we found a way to get through," said Greenwood.

The $7.1-trillion national debt number might seem staggering, said Leonard Lardaro, a University of Rhode Island economist.

Lardaro said that the national debt must be compared to the shrinking U.S. trade defidict to get a clear idea of how staggering a problem we face. That's a good measure of the nation's ability to pay off its debt and its financial health. When you consider this, Lardaro said the size of the debt sends a clear signal of much higher taxes to come.

Lardaro belives that the national debt will continue to rise.

Lardaro also believes that wiping out the debt could cause more harm than good, especially in a weak economy. Slowing government spending and raising taxes to decrease the debt could tip the country toward recession, he said.

William Greenwood said he will continue to post the debt on his son's house for as long as he owns the property.

He and his son use vinyl numbers, which they say can withstand most weather. They attach the numbers with a staple gun and consult the Internet site, The U.S. National Debt Clock, to get the latest update.

"There are some good people out there trying for change," Greenwood said. "You need more independent thinking people to get up on a soapbox and say what is wrong."

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but the fact remains that, give or take a few ten trillion dollars, under the current plan future generations are going to have to come up with the resources to pay for a burgeoning cohort of retirees. Under their plan, taxes and government debt do not rise nearly as much as if we do nothing, but it is not without pain, as the transition to massive forced savings will disrupt the economy for at least several years.

Whether that is done within this decade or put off into the future, when that time comes, it is going to mean a decrease in the available funds for consumer spending, whether one time or gradual. Doing nothing is going to mean a significant rise in taxes in the future. It will mean a doubling of the payroll tax, at the very least.

It is like the old Fram oil filter commercial, "Pay me now (for a new oil filter) or pay me later (for a new engine)." (Yes, I just really dated myself.)

The last few chapters of the book basically assume that Congress will do nothing in the short or medium term, and offers some very concrete suggestions for protecting your own retirement.

"Unfortunately," they note, "knowing our political system there is every reason to believe that our politicians are going to miss this opportunity to save our ship of state. In this case, it's critical that we look out for ourselves and our own families. So don your life jacket and follow us to Chapter 7."

The next few chapters are full of practical advice. TIPS, alternative portfolios and other creative solutions are part of their recommendations, some as simple as owning your own home free of debt.

Frankly, the point of the book is NOT their proposed solutions, but their very convincing presentation of the magnitude of the problem and a step-by-step plan for protecting your own retirement funds. It helps that Scott is a very, very good writer who can make the complex very simple. It helps that he has a sense of humor and quick wit.

The Echo Bubble

As I wrote last week, I want to look at James Montier's work on what he calls an "Echo Bubble." James is the Global Equity Strategy for Dresdner Kleinwort Wasserstein in London. (Quotes are from his work with my comments interspersed.) An echo bubble is a mini-bubble, if you will, which echoes a previously burst bubble.

"Bubbles appear to share common features during both the inflation stage and the de-bubbling phase. Most of the bubbles we have found exhibit a bubble echo - a relatively short lived rebound in markets. This seems to be driven by conservatism bias. Only when the bubble echo finally fails, do investors lose their illusions.

"This very limited ability to recognize and deal with change leads to anchoring and slow adjustment. Once a position has been stated most people find it very hard to move away from that view. When movement does occur it does so only very slowly. That is to say, people hold on to their prior beliefs too long and only change their views when there is irrefutable proof that they were wrong. During the

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last market rally, investors have been effectively anchored in the bubble environment, still applying bubble standards to valuations and behavior. It is likely to take more than one downturn to shake the faith that investors have built up over the long bull market."

"Bubble echoes appear to be commonplace in the range of historical experiences ranging from the South Sea Bubble to the UK railroads of the 1840s, right through to Japan in the 1990s."

They looked for bubbles in the past that had two characteristics: they were liquid and there was available data. They found nine previous bubbles which met that criteria. Basically, doing some fancy math, they found the average curve of the bubble and its aftermath.

When you overlay that pattern with the S&P 500, you find a rather remarkable correlation with the "average" bubble right up until today. Visually, it could hardly be more closely correlated. If it remains true to form, we are due for a rather bearish market for the next two years (which is as far as the graph goes). Interestingly, the "average" bubble does not go back to previous lows.

"We believe these patterns are driven by the immutable nature of human psychology. Investors suffer 'conservatism bias': an unwillingness to give up previous beliefs. Psychologists have found that it takes anywhere between two and five observations to do one observation's worth of work in inducing a subject to change his opinion. Examining the relationship between the current US experience and that from past bubbles reveals that this is almost exactly the right time for the bubble echo to start to deflate."

"We are not alone in finding a commonality within the bubbles and busts of history. Experimental economics also shows that bubble echoes are commonplace, as investors take time to learn the errors of their ways. Technical analysis such as Dow theory and Elliot Wave theory also identify the bubble echo scenario, and the mistake investors make of confusing a bull rally in bear market with the hope of a new bull market."

They cite the work of several economists who develop experiments with investors and create a bubble within their experiments. The research shows that inexperienced traders are very likely to participate in a second bubble before they revert to value investing.

Interestingly, in experiments that grouped experienced traders with novices "... shows that even twice experienced players [who knew a bubble was developing] can't quite manage to hold fundamental value lines when there are novices involved in the market as well."

They cite work by both Dow and Elliott Wave theorists which shows the likelihood of an echo bubble. Then they conclude:

"The simple truth is that new bull markets are usually born from exceptionally cheap valuations, not the excessively expensive ones which we see now. When the psychology of the long bull market finally breaks, the resulting reality check will be all the more painful for investors. The loss of illusion is a necessary step on the road to revulsion."

The lesson from today's message is simple, gentle reader. It is quite possible this market has begun a renewed bear phase. Proceed with extreme caution.

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in manufacturing are not engaged in manufacturing at all but in design, marketing, and distribution. Even if the Chinese currency doubled in value, the labor cost for a worker in China would still only be a fraction of the cost for an American in America. The sad fact remains that Personal Income growth will not happen because of job growth. Personal Income remains under pressure as higher “valued added” manufacturing jobs are exchanged for lower paying part-time and service jobs. America is losing manufacturing jobs paying $45,000 - $60,000 a year so it needs three new service jobs paying $15,000 - $20,000 a year just to replace the one manufacturing job that was lost.

So, where are Americans and their mountain of debt headed? If the days of borrowing more - courtesy of both the Federal Reserve and Asia's Central Banks - are winding down later this year when Asia revalues its currency, it looks like there will only be two ways out: increased inflation and debt default. Both are likely. When those Chinese goods at Wal-Mart go up 30% in price, Americans will see inflation. The Fed will accommodate most of the inflation, but there will be a rise in interest rates. Inflation, if allowed and encouraged, will save the wage earner so he can continue to service his consumer debts. Rising interest rates will smash into housing prices like a tornado in Kansas. Homeowners who have a 30-year fixed rate mortgage will come out in the end, if they don't have to sell their home for at least 10 years. Anyone who wants to sell their home will see some “asset deflation”, and financial institutions

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Then again, as I read this study, I was reminded of Boss Gettys' line about Citizen Kane: "He's going to need more than one lesson, and he's going to get more than one lesson."

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will experience substantial "debt default". The Federal Reserve will "print money like crazy" to fight asset deflation and encourage inflation. Sometime before or after the Presidential election, the financial markets will be interesting, but painful to many.

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POST-IT NOTES: STATUS OF THE SOCIAL SECURITY AND MEDICARE PROGRAMS

The fundamentals of the financial status of Social Security and Medicare remain problematic under the intermediate economic and demographic assumptions. Social Security's current annual cash surpluses will soon begin to decline and then turn into rapidly growing cash deficits toward the end of the next decade as the baby-boom generation retires. The financial outlook for the Medicare Hospital Insurance (HI) Trust Fund that pays hospital benefits has deteriorated significantly from last year, with annual cash flow deficits beginning this year and expected to grow rapidly after 2010 as baby boomers begin to retire. The growing annual cash deficits in both programs will lead to exhaustion in trust fund reserves for HI in 2019 and for Social Security in 2042. In addition, the Medicare Supplementary Medical Insurance (SMI) Trust Fund that pays for physician services and the new prescription drug benefit will require substantial increases over time in both general revenue transfers and premium charges. As the reserves in Social Security and HI are drawn down and SMI general revenue financing requirements continue to grow, the pressure on the Federal budget will intensify. We do not believe the currently projected long run growth rates of Social Security and Medicare are sustainable under current financing arrangements.

As we reported last year, Medicare's financial difficulties come sooner--and are much more severe--than those confronting Social Security. While both programs face essentially the same demographic challenge, health care costs per enrollee are projected to rise faster than the wages per worker on which the payroll tax is paid and on which Social Security benefits are based. As a result, while Medicare's annual costs are currently 2.7 percent of GDP, or about 60 percent of Social Security's, they are now projected to surpass Social Security expenditures in 2024 and reach almost 14 percent of GDP in 2078, more than twice the percent for Social Security in that year.

The projected 75-year actuarial deficit in the Hospital Insurance (HI) Trust Fund is now 3.12 percent of taxable payroll, up significantly from 2.40 percent in last year's report mainly due to higher actual and projected hospital expenditures, as well as lower actual and projected taxable payroll, and new Medicare legislation. The fund now fails our test of short-range financial adequacy, as assets drop below the level of the next year's projected expenditures within 10 years--in 2012. The fund also continues to fail our long-range test of close actuarial balance by a wide margin. The projected date of HI Trust Fund exhaustion has moved forward significantly to 2019, from 2026 in last year's report, and projected HI tax income falls short of outlays beginning this year, as compared to 2013 in last year's report. HI could be brought into actuarial balance over the next 75 years by an immediate 108 percent increase in program income or an immediate 48 percent reduction in program outlays (or some combination of the two). However, as with Social Security, adjustments of far greater magnitude would be necessary to the extent changes are delayed or phased in gradually, and continuation of the program after 2078 would require substantial changes.

Editor's Note: Until next time… happy investing and thank you for allowing us to service you-
Nancy Villa

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